

1 June 2023

## Global Markets Research

### Daily Market Highlights

# 1 June: Global markets await debt ceiling vote

**Global equities closed in the red; sovereign bonds rallied; DXY nudged higher**

**Dovish Fed speaks; JOLTS job openings topped all estimates**

**China PMIs slowed more than expected; Australia's inflation spiked on automotive fuel**

- Wall Street closed in the red ahead of the House of Representatives vote on the debt ceiling deal, with fears of a fed funds rate hike on investors' minds after the strong JOLTS data but dovish comments from two Fed officials helped the indices close off session lows. The Dow Jones Industrial Average closed 0.4% d/d lower, while the S&P 500 and Nasdaq dipped 0.6% d/d each. In Fed speak, both Governor Philip Jefferson and Philadelphia President Patrick Harker signalled that they are inclined to keep rates steady in the June FOMC meeting.
- The European markets also finished lower on jitters over the debt ceiling. Both the Stoxx 600 and FTSE 100 lost around 1.0% d/d each. Hang Seng index tumbled 1.9% d/d to a new low for 2023 as Asian markets mostly fell. CSI300 fell 1.0% d/d as China's latest PMI posted a steeper than expected contraction. Nikkei 22 retreated from its 33-year high and fell 1.4% d/d.
- The UST market whipsawed, with investors fretting over the combination of mixed economic data and dovish comments by the two Fed officials. At the end, the yields for the 2Y and 10Y closed 5 and 4bps lower at 4.40% and 3.64% respectively. The yield on the 2Y had initially spiked to as high as 4.45% after job openings in the US topped all estimates, raising expectations of higher interest rates. The 10Y European bonds yield also finished lower between 2 to 7 bps.
- DXY climbed to as high as 104.70 with support from the strong JOLTS data, but later retreated to close at 104.33 (+0.2% d/d) following the dovish Fed comments. EUR weakened to as low as 1.0635 after data showed European inflation rates cooling quicker than expected and closed the day 0.4% d/d weaker at 1.0689. GBP strengthened 0.2% d/d. CNH led losses in the Asia region, depreciating 0.4% d/d at 7.1192. MYR and SGD were also 0.1% d/d-0.2% d/d weaker at 4.6130 and 1.3516 respectively. JPY was the outlier, posting a 0.3% d/d gain on safety bids.
- In the commodities markets, oil slumped as a weak Chinese PMI dented sentiment, sending the WTI and Brent plunging 2.0% d/d and 1.2% d/d respectively. Gold, on the other hand, gained 0.3% d/d.

#### US job openings topped all estimates

- According to the latest Beige Book, economic activity in the US was little changed in April and early May. Expectations for future growth deteriorated slightly, though largely pointed to a further expansion in activity. Consumer

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	32,908.27	-0.41
S&P 500	4,179.83	-0.61
NASDAQ	12,935.29	-0.63
Stoxx Eur 600	451.76	-1.07
FTSE 100	7,446.14	-1.01
Nikkei 225	30,887.88	-1.41
Hang Seng	18,234.27	-1.94
Straits Times	3,158.80	-0.90
KLCI 30	1,387.12	-0.70
<b>FX</b>		
Dollar Index	104.33	0.15
EUR/USD	1.0689	-0.43
GBP/USD	1.2441	0.22
USD/JPY	139.34	-0.32
AUD/USD	0.6503	-0.21
USD/CNH	7.1192	0.40
USD/MYR	4.6130	0.23
USD/SGD	1.3516	0.08
<b>Commodities</b>		
WTI (\$/bbl)	68.09	-1.97
Brent (\$/bbl)	72.66	-1.20
Gold (\$/oz)	1,963.90	0.30
Copper (\$\$/MT)	8,089.00	-0.42
Aluminum(\$/MT)	2,246.00	0.99
CPO (RM/tonne)	3,496.50	-2.03

Source: Bloomberg, HLBB Global Markets Research

expenditures were steady or higher, with many Districts reporting growth in spending on leisure and hospitality. Manufacturing activity was flat to up, but we noted concerns of a "freight recession." Residential real estate activity picked up. Financial conditions were stable with a rise in consumer loan delinquencies.

- JOLTS jobs openings surged more than expected to 10.1m in April (March: 9.7m). This is the highest in 3 months, bringing the number of vacancies per unemployed workers to 1.78 (March: 1.67). Job gains were led by retail trade, healthcare as well as transportation and warehousing. The quits rate fell to the lowest since February 2021 at 2.5% (March: 2.6%), suggesting the employees were less optimistic about the employment market. The layoff and discharge rate also edged down to 1.0% (March: 1.2%).
- As mortgage rates rose to the highest since November 2022 at 6.90%, mortgage applications chalked its third consecutive week of contraction at -3.7% w/w for the week ending May 26 (May 19: -4.6% w/w). While refinance demand is driven by the level of rates, purchase volume was also constrained by the lack of homes on the market.
- The MNI Chicago PMI tumbled more than expected to its 6-months low of 40.4 (Apr: 48.6) Most sub-indices worsened during the month, but of note, employment fell and the direction reversed to a contraction.
- The Dallas Fed Services Activity index worsened to -17.3 in May (Apr: -14.4), with price and wage pressures sub-indices easing. More importantly, respondents' expectations regarding future business activity remained negative but largely unchanged at -13.2.

#### **UK business confidence dipped for the first time in 3 months**

- UK's business confidence dipped for the first time in three months to 28 in May (Apr: 33) as firms were less optimistic about the economy and their trading prospects. Nonetheless, the current level is in line with the survey's long-term average and potentially reflected firms having already accounted for the more upbeat economic news in recent months. No doubt, the economic environment remains challenging, weighed down by stubborn inflation rate and higher policy rates.

#### **Australia's CPI spiked on fuel automotive**

- Australia's inflation rate snapped three months of softening, accelerating more than expected to 6.8% y/y in May (Apr: +6.3% y/y). Nonetheless, it should be noted that a significant contributor to price pressure was due to automotive fuel, where the fuel excise tax was halved in April 2022. Stripping the volatile automotive fuel, fruit and vegetables and holiday travel, core prices eased to 6.5% y/y (March: 6.9% y/y).
- Private sector credit unexpectedly accelerated to +0.6% m/m in April (March: +0.2% m/m), with notable pick-up seen for businesses.
- May's final Judo Banks' manufacturing PMI was revised upwards by 0.4ppts to 48.4 (Apr: 48.0). Even though the index is up m/m, the underlying trend remains consistent with a gradual slowdown in the manufacturing sector. Of note, new orders remained in contraction and firms were careful with their hiring activity. Price pressures intensified during the month.

#### **Japan's consumer confidence improved, capital spending accelerated**

- A string of upbeat Japanese economic data was released. In the consumer sector, matching expectation, consumer confidence inched up to 36.0 in May (Apr: 35.4). This marks the sixth consecutive month of improved sentiment

driven by overall livelihood, employment and willingness to buy sub-indices. In the corporate sector, capital spending unexpectedly accelerated to +11.0% y/y in 1Q (4Q: +7.7% y/y), as company profits turnaround to expand by 4.3% y/y (4Q: -2.8% y/y).

### China PMIs slowed and below expectations

- China's official manufacturing PMI unexpectedly weakened to 48.8 in May (Apr: 49.2), the lowest since December 2022 while its services sector slowed more than expected, albeit still expansionary at 54.5 (Apr: 56.4). This latest data provides more evidence that the economy is indeed losing momentum as the economy struggled with weak exports and property markets, thus strengthening the case for further policy easing and pro-growth measures.

### House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	103-106	100.97	99.96	97.96	96.98
EUR/USD	1.06-1.08	1.10	1.11	1.12	1.13
GBP/USD	1.22-1.25	1.24	1.25	1.24	1.24
USD/JPY	138-140	131	130	128	128
AUD/USD	0.64-0.66	0.68	0.68	0.69	0.70
USD/MYR	4.54-4.65	4.39	4.35	4.31	4.28
USD/SGD	1.34-1.37	1.31	1.30	1.27	1.26

Rates, %	Current	2Q-23	3Q-23	4Q-23	1Q-24
Fed	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25
ECB	3.75	4.00	4.00	4.00	4.00
BOE	4.50	4.75	4.75	4.75	4.75
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.85	3.85	3.85	3.85	3.85
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

### Up Next

Date	Events	Prior
1-June	JN Jibun Bank Japan PMI Mfg (May F)	50.8
	MA S&P Global Malaysia PMI Mfg (May)	48.8
	VN S&P Global Vietnam PMI Mfg (May)	46.7
	AU Private Capital Expenditure (1Q)	2.20%
	CH Caixin China PMI Mfg (May)	49.5
	EC HCOB Eurozone Manufacturing PMI (May F)	44.6
	HK Retail Sales Value YoY (Apr)	40.90%
	UK S&P Global/CIPS UK Manufacturing PMI (May F)	46.9
	EC CPI MoM (May P)	0.60%
	EC Unemployment Rate (Apr)	6.50%
	EC CPI Estimate YoY (May)	7.00%
	US Challenger Job Cuts YoY (May)	175.90%
	US ADP Employment Change (May)	296k
	US Nonfarm Productivity (1Q F)	-2.70%
	US Initial Jobless Claims	229k
	US Unit Labor Costs (1Q F)	6.30%
	US Continuing Claims	1794k
	US S&P Global US Manufacturing PMI (May F)	48.3
	US Construction Spending MoM (Apr)	0.30%
	US ISM Manufacturing (May)	47.1
2-June	AU Home Loans Value MoM (Apr)	4.90%
	US Change in Nonfarm Payrolls (May)	253k
	US Unemployment Rate (May)	3.40%
	US Average Hourly Earnings MoM (May)	0.50%
	US Average Weekly Hours All Employees (May)	34.4
US Labor Force Participation Rate (May)	62.60%	

Source: Bloomberg

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